

GO-EuroMed: The Political Economy of Euro-Mediterranean Governance



Specific Targeted Research Project Stage 2 Summary

EU SIXTH FRAMEWORK PROGRAMME, PRIORITY 7
Citizens and Governance in a Knowledge Based Society

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Preface



The GO-EuroMed research project assembles a team of economics and political science institutes from European Union and Mediterranean partner countries, together reflecting the diversity of a dynamic region. The three year project aims to identify multilateral, bilateral and domestic institutional design and management strategies for furthering the Euro-Mediterranean Partnership's governance objectives. Research is funded by the European Commission's 6th framework programme. The Jean Monnet Centre of Excellence, Freie Universität Berlin (project coordinator) wishes to thank all its partners for their rich and fruitful cooperation during the project's two first years.

The project's major milestones are its conferences and related publications, its deliverable working package reports, its annual activity reports, its workshops and its public awareness local meetings (PALMs). Since the project started in January 2006, conferences have taken place in Berlin, Istanbul and Madrid. The final conference will take place in Brussels in December 2008. The consortium has held workshops in Warsaw, Orléans, Amman and Ifrane, and will meet in Beirut and Berlin in 2008. These events bring the consortium together to develop and disseminate research.

The project's second year output is extensive: 18 working papers on the key challenges that the Euro-Mediterranean partnership is facing during the next decade have been published and are available for download from the project website. This summary has been compiled by the Jean Monnet Centre of Excellence, Freie Universität Berlin on the basis of these working papers, with the objective of providing a concise overview of the main outcomes of the project's second phase. Naturally, this summary can never reflect fully the depth and breadth of the work of all of our consortium members, and the JMC-Berlin asks that readers refer to the working papers themselves. The GO-EuroMed project's Stage II publications are available along with further information, news and updates at www.go-euromed.org.

Team JMC Berlin
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Executive Summary

The GO-EuroMed research project aims to identify multilateral, bilateral and domestic institutional design and management strategies for furthering the Euro-Mediterranean Partnership's (EMP) governance objectives. The EMP has been extensively analysed since its launch in Barcelona in 1995. Many commentators agree that the Barcelona Process has not lived up to the high expectations its launch raised. However, the EMP should not be judged as if it was an endgame – rather, it should be interpreted as a negotiated framework upon which to build future negotiations.

The Barcelona Process conveys two distinct advantages to its member governments: first, it facilitates the coordination of policy reform efforts among Mediterranean Partner Countries (MPCs) and Europe, providing a stable environment within which governments and other actors can negotiate with each other. Second, dialogue and exchange in the context of the Barcelona process may help create windows of opportunity for mutually beneficial agreements, particularly as changes in political or market circumstances influence government preferences.

This summary analyses the functioning of the Barcelona Process and assesses its outcomes. We outline the negotiation framework's main features, and consider its contribution to the catch-up and convergence processes in the Mediterranean Basin. We then analyse the ways in which national governments and the EU have used the advantages of the EMP framework to work towards their goals in four key policy fields:

- Increasing macroeconomic interdependence between the EU and MPCs calls for deeper cooperation under the EMP framework to reduce economic vulnerabilities. Serving as an external commitment device, the EU can provide necessary guidance. Besides financial support, direct technical assistance and enhanced cooperation represent key channels through which the EU can anchor the implementation of market-led reforms.
- Moderate achievements in the economic and financial partnership have been accomplished, evident in increased trade exchange between the MPCs and the EU. Nevertheless, negotiations over agricultural trade are deadlocked, and services

remain highly sensitive. Better windows of opportunity exist for institutional developments in both renewable and fossil energy trade.

- Real progress on ‘hard’ security cooperation has been blocked by several issues exogenous to the Barcelona Process and is unlikely to develop further without change in the wider geopolitical environment. In recent years changes caused by high-profile terrorist incidents in Europe and elsewhere have brought to light common interests for EU and MPC governments. Negotiations for managing cooperation on soft security issues are currently mostly intergovernmental and EU-level resources and institutions are being used where appropriate. Institutional developments face a prevention/human rights conundrum.
- The Barcelona Process’ social, cultural and human basket has been deliberately designed by member governments to contribute to their political and economic objectives. It has three features that perform an important role in the functioning of the overall EMP framework. The socio-cultural basket aims to build trust, support economic reform, and play a role in the long-term process of preference shaping in European and Mediterranean partner countries. Windows of opportunity exist for deepening socio-cultural cooperation through institution-building, especially in the field of education and research.

This summary concludes with an outlook for research at stage III of the GO-EuroMed project: design and management strategies for domestic, bilateral and multilateral institutions capable of providing an environment in which governments and other actors can conduct further negotiations under the Barcelona Process framework.

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1. Introduction

The Euro-Mediterranean Partnership (EMP) has been extensively analysed since its launch in Barcelona in 1995. Much of this research and commentary has aimed to judge the EMP's progress towards its stated goals of achieving a shared area of peace, stability and prosperity in the Mediterranean Basin, often holding these rather abstract notions up as benchmarks. Inevitably, many analysts have come to the conclusion that the Barcelona Process has failed, and that the Mediterranean basin is not nearly peaceful, stable or prosperous enough. More modest analyses have tended to assess progress based on the subject-matter of the Barcelona Process' three baskets, and have used as benchmarks aggregate values such as GNP per capita, or indicators that measure democratic transition or political stability. Other analyses have focussed on programme-based goals: target-specific assessment in terms of allocated funds, measurements of the integration of relevant actors, and achievements in certain programme related areas such as public administration management, civil protection and international crime prevention. The literature also includes dense descriptions of policy achievements in areas like institution building, trade liberalisation, border control and migration. Many of these sources agree that the Barcelona Process has not lived up to the high expectations its launch raised.

The GO-EuroMed consortium's intention is to assess the EMP based on an understanding of the functioning of the process itself, particularly its role as a political framework for negotiations among European and Mediterranean partner governments, as well as the European Commission. These actors approach the Barcelona Process in light of the benefits it can bring, the actual and potential restrictions it entails, and the opportunities it provides for them to pursue their interests. In this regard, the Barcelona Process conveys two distinct advantages: first, the negotiation framework facilitates the coordination of policy reform efforts among Mediterranean Partner Countries (MPCs) and Europe, providing a stable environment within which governments and other actors can interact. Second, dialogue and exchange in the context of the Barcelona process may help to create windows of opportunity for mutually beneficial policy agreements, particularly as exogenous changes in political or market circumstances influence government preferences. In the long run, the EMP may indeed help to contribute to lifting measurable benchmark indicators for prosperity, social development, and stability. In the shorter term, the Barcelona Process combines several governance sectors and progress can be expected to be uneven as internal conditions and external shocks influence the process, while transition periods are worked through.

However, the Barcelona Process should not be judged as if it was an endgame – rather, it should be interpreted as a negotiated framework upon which to build future negotiations.

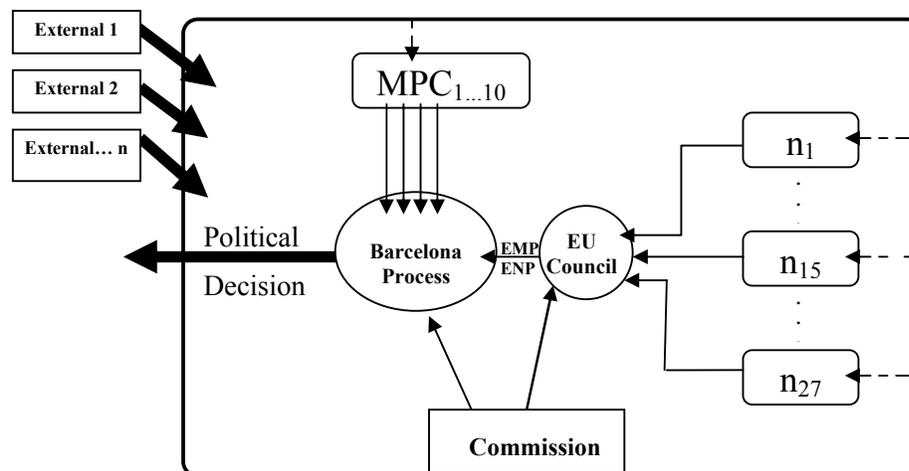
The aim of this summary is to analyse the functioning of the Barcelona Process and to assess the outcomes, according to the results of research carried out by members of the GO-EuroMed consortium in 2007. In doing so, we outline the negotiation framework's main features, and assess its contribution to the sustainability of the catch-up and convergence process in the Mediterranean Basin. We then analyse the ways in which national governments and the EU have used the advantages of the EMP framework to work towards their goals in key policy fields: macroeconomic responses; and the EMP's three 'baskets' – economic and financial cooperation, political and security cooperation, and socio-cultural cooperation. The summary concludes with an outlook for research at stage III of the GO-EuroMed project: institutional design and management strategies.

2. The Barcelona Process: A Negotiated Framework

2.1 How the EMP Works: Analysis

The Barcelona Process represents a period of mutual political commitment into the provision of a particular public good: the political and economic stabilisation of the Mediterranean Basin. The interaction of EU member states and Mediterranean partner countries evolves around both sets of actors' interest in achieving political and economic stabilisation. Uncertainty about the Mediterranean region's political future determines its prospects for successful economic catch-up. From the perspective of MPCs, benefits from the Barcelona Process emerge in terms of lowering risks in the short term and increasing prospects for a successful catch-up in the long term, thus fostering political and economic stabilisation. The EU and its members are particularly interested in preventing political and economic instability at its periphery. Although the realisation of the public good of political and economic stabilisation is in all actors' interest, conflict exists over the distribution of the costs of securing political and economic stability among the EU and the MPCs, particularly those incurred during indeterminate periods of transition. The Barcelona Process negotiation framework prepares the ground for distributive bargaining.

Figure 1: Information flow in the EMP decision-making process



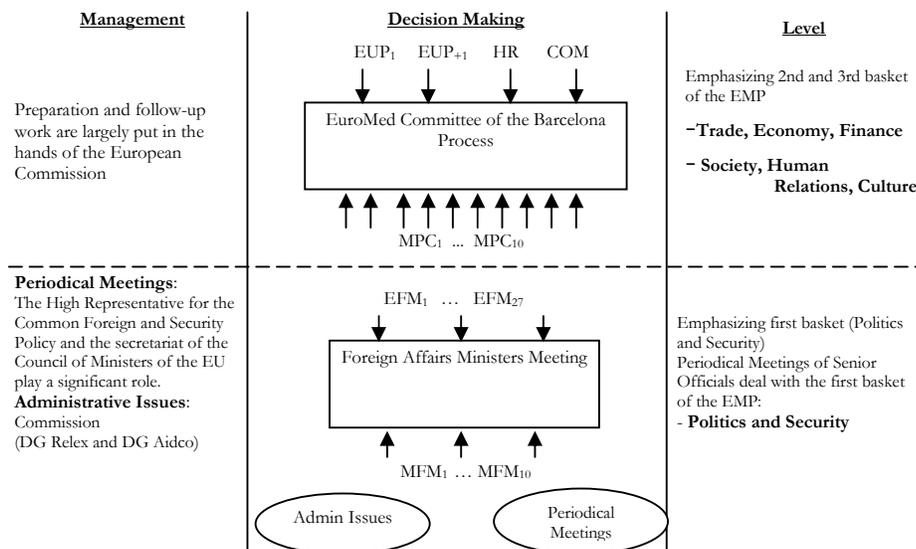
Source: JMC Berlin

The procedure of the EMP negotiation framework is shaped by the political preferences of national governments interacting supra-nationally (see Figure 1). On the EU side, political

decisions are made by the European Council, where national interests are equilibrated through intergovernmental negotiations within a two level system. However, on the MPC side no such equilibrating mechanism exists. The Barcelona Process framework therefore reflects the bargaining power of Europe much more than it reflects the national or collective interests of the Mediterranean partners.

Within the Barcelona Process framework, the EU possesses characteristics of a supply side monopoly for political and economic stabilisation. Bargains are independent from (in)formal unanimity on the MPC side, as the conditional allocation of MEDA (and since 2007 ENPI) funds creates a zero-sum game for the Mediterranean partners. The EMP is shaped by the distributional nature of the common pool provided by the EU. Hence, political decision making is dominated by the EU and its intergovernmental bargaining process, leaving the MPCs with a ‘take-it-or-leave-it’ choice with regards to their decision to participate in the Barcelona framework. As it happens, most MPCs have chosen to ‘take it’ because they consider that participation in the EMP will serve their interests. Of course, there are caveats: the EU has to be careful to design a framework that the MPCs will not reject out of hand, which logically implies that its supply-side monopoly is not absolute. Moreover, there are other actors and stakeholders in the Mediterranean region (the IMF, the USA, Russia, China and other Middle Eastern states), and the Barcelona Process framework is to some extent affected by these external influences.

Figure 2: EMP implementation plan



Source: JMC Berlin

Figure 2 portrays decision-making in the EMP as taking place at executive level in regular meetings of senior officials. The European Commission administers general programming and project cycle management, and organises the meetings.¹ In case of political gridlock or information asymmetries, the Commission is able to use its discretionary autonomy and make proposals to the partner countries in order to increase the chances of reaching an agreement. Figure 2 also reveals an important distinction between different policy-making fields. In the political and security basket, negotiations are intergovernmental, implying that individual MPCs may have more leverage over their European counterparts than in economic negotiations. In the economic and financial and socio-cultural baskets decisions are made in the Euro-Mediterranean committee, where representatives of the EU Council presidencies, the European Commission and the High Representative for Common Foreign and Security Policy meet with the governments of the MPCs. Here outcomes depend on MPCs' abilities to arrange for side payments, package deals and other trade-offs to counter the EU's collective bargaining power.

In order to examine the Barcelona Process framework in more detail, one must proceed using three criteria: bargaining outcomes depend on the setting for negotiations, the actors' bargaining power, and the choice of bargaining issues.

Regarding the setting for negotiations, domestic institutions exert influence on both bilateral and multilateral negotiations between the EU and MPCs. At the heart of the two-level approach is the assumption that all potential agreements on the intergovernmental level must be ratified in the domestic arena.² Establishing a consensus cannot only be traced back to the institutional setting of the international negotiations framework itself but also to the domestic policy-formation level, which carries ample potential for political conflict. This potential may rest on both vague resistance among the general public and well-organised interest group or power-club patterns. Although bargaining power is generally unbalanced in favour of the EU, MPCs are able to exert leverage by referring to domestic constraints. MPCs are constrained, just as EU member states, by strong domestic actors and societal demands.

Bargaining issues may be considered as windows of opportunity: discernable signals for general benefits that stem from keeping up with dialogue and exchange in the context of an

¹ Philippart, Eric (2003) 'The Euro-Mediterranean Partnership: Unique Features, First Results and Future Challenges'. CEPS Middle East and Euro-Med Project Working Paper No.10.

² Putnam, Robert D. (1988) Diplomacy and Domestic Politics: The Logic of Two Level Games. *International Organization* 42:3, pp. 427 – 460.

institutionalised and mutually agreed framework. National governments serve as gatekeepers for windows of opportunity, i.e. the policies that are put on the agenda in intergovernmental bargaining processes. This role ensures that policy issues negotiated in the international setting are those which are unlikely to undermine the entire Barcelona Process, resulting in a total breakdown of negotiations. Any negotiations within a bilateral or multilateral institutional framework are constrained by each actor's domestic interplay of public sphere and/or power-clubs as well as by domestic political institutions. Governments' function as gatekeepers is constrained by their capacity to ignore societal demands. This in turn reflects the general ability of societal groups to exert influence on governments' policy preferences toward particular issues in intergovernmental bargaining. This societal influence may not only affect the costs and benefits of particular intergovernmental agreements, but also shape governments' policy positions in international negotiations, and the leverage they can exert.

The threat of a possible failure of the Barcelona Process affects the choice of issues that make it on to the table. Given the aforementioned self-constrained set of bargaining issues in Euro-Mediterranean relations, agreements are achieved in policy areas that, firstly, serve the interests of particular groups within the participating states, including power clubs and the general public; and, secondly, do not upset powerful groups in the other side's society. This is reinforced by the fact that there are no enforcement capacities on either side. Neither the EU nor any MPC can actually force the other to implement policy reforms.

2.2 What the EMP has Achieved: Assessment

In assessing bargaining outcomes we refer to the general concepts of Pareto-optimality and Nash equilibrium in a two-level game. In general, political and economic stabilisation of the MENA region would make all actors better off and would thus represent a Pareto improving outcome. Some issues, however, which are important in the long-term might not yet have been negotiated, or may be issue-areas where actors have been unable to achieve considerable progress. Bargaining outcomes where the successful catch-up process and corresponding political stability is endangered may represent Pareto-inferior Nash equilibria. The interests of powerful domestic lobbies may prevent governments from committing themselves to an agreement and its pathway to Pareto-optimality, or prevent their dealing with an issue at all. In other issue areas where multiple equilibria are possible but where no solution has been reached, bargaining towards a Pareto

optimal outcome continues. Figure 3 depicts an assessment matrix of the possible bargaining outcomes of a negotiations process.

Figure 3: Assessing bargaining outcomes from international negotiations

Pareto Nash	yes	no
yes	Nash Equilibrium Pareto Optimal	Nash Equilibrium Pareto Sub-Optimal
no	Distributional Bargaining: for better or worse	

<p>Nash-Equilibrium: Situation when no actor has an incentive to choose a different strategy, given the optimal strategy of the other actors</p> <p>Pareto -Optimal: Situation in which no change is possible without making at least one actor worse off</p>

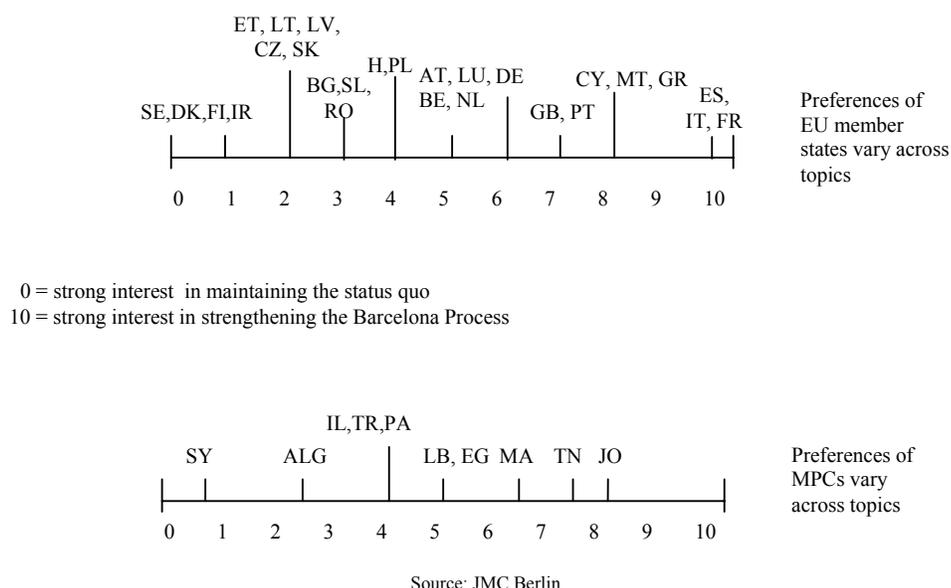
Source: JMC Berlin

The potential for improvement crucially depends on the political feasibility and likelihood of stable/Pareto optimal, or non-equilibrium outcomes. Stable, Pareto-inferior outcomes are likely to resemble deadlock where change requires an exogenous shock to break the equilibrium. As discussed above, the probability of a certain outcome depends on the participating governments' preferences and their national policy formation environment, as well as on the 'rules of the game', that is on the setting for negotiations itself. Concerning the governments' pre-shaped policy positions, similar policy positions of the MPCs towards the EU, or among EU members towards the Mediterranean region, would then imply a simple common policy matching problem. Further investigation, however, shows that a diverse field of policy positions between the MPCs exists, and that policy positions even among EU member states of different intensities with respect to the Mediterranean partners (Oktay 2007).

Figure 4 shows that if countries with strong interests in maintaining the status quo are distinguished from those which have strong interests in strengthening the Barcelona Process, Jordan, Tunisia and Morocco form a leading coalition, followed by a block of more hesitant states including Egypt and Lebanon. Algeria and Syria are more willing to stick with the status quo. On the EU side, France and Spain are highly committed to the process, whereas Italy, Great Britain,

and Germany are more reluctant. Eastern European countries, however, are less interested in a deepened Barcelona Process due to issues of redistribution of EU funds involved.³

Figure 4: Ordering of preferences regarding the strengthening of the Barcelona Process



Governmental policy positions are shaped by powerful societal groups. Their potential impact on governmental preferences results from the outcomes of conflicts in the domestic arena. For a government to renege publicly on a societal demand is costly because of its adverse effects on other societal groups' utility. The following elements contribute to influence:

- Incumbency stakeholders: a (winning) coalition of societal forces which directly provide the government personnel, act as gatekeepers of policies and dominate the state-monopoly of force.
- Lobby groups: Societal forces with specific motivation such as the promotion of commercial concerns, representation of minorities or enforcement of religious requirements and ideological values.
- Vested interests, veto players, pivotal voters' groups: groups or institutions that organise vital societal demands and/or represent deciding economic interests with the power to (in)formally object to incumbent stakeholders' policies.⁴

³ A more detailed breakdown of EU member state positions can be found in Lippert, Barbara (2007) 'The Discussion on EU Neighbourhood Policy – Concepts, Reform Proposals and National Positions', Friedrich-Ebert-Stiftung International Policy Analysis.

⁴ Tsebelis, George (2002) *Veto Players: How Political Institutions Work*. Princeton, NJ: Princeton University Press.

For selected MPCs, Table 1 gives an empirical impression of the societal groups upon which the respective incumbents rely.

Table 1: Case studies for selected Mediterranean partner countries

Country	Winning Coalition	(Vested) interests	Popular Demands	Resulting policy position
Jordan	Ultimate decision making remains with the monarch King Abdullah. Public institutions and publicly controlled corporations are the largest employers nationwide. Patterns of patrimonial distribution exist.	Most influential civil society actors, trade unions and NGOs (except the Islamic Action Front) are interested in stability and remain loyal to the royal family. Tribal leaders have vested interests in patrimonial distribution patterns.	Issues such as social equity, inclusion of stakeholders and political participation are increasingly relevant. Fear of social unrest prevents public sector reform, although the recent lifting of fuel subsidies may lead to tension.	King Abdullah's attitude to increasing cooperation with the EU is generally positive. Jordan's rapid adoption of the ENP action plan in January 2005, shortly after its approval by the EU, underlines his willingness to cooperate.
Morocco	Like his father Hassan II, Mohammed VI's power mainly rests on support from rural constituencies. A second pillar is the small urban bourgeoisie, which has a strong interest in protecting the local industries. Reforms introduced since 1999 have broadened the King's support across the country.	The government has managed to forge an alliance ('gouvernement d'alternance') consisting of nationalist 'Istiqlal' and socialist 'USFP' parties. The opposing Islamist Party of Justice and Development (PJD) has a strong foothold both as party as well as a political movement.	A 'hot' topic for pivotal rural voters is poverty. Unemployment and inequality is exploited by Islamist and leftist movements. Human rights violations under Hassan II are not forgotten, and the government's record has improved, particularly in terms of women's inclusion.	Compared to other MPCs, Morocco has an above-average commitment towards the EMP though a policy of 'cherry picking', supported by Spain.
Egypt	The ruling National Democratic Party headed by President Hosni Mubarak has managed to consolidate its firm grip on politics since the 1980s. The economy and state are dominated by the ruling elite. Informal groups, which belong to the centres of power have benefited from liberalisation.	Conservative religious and especially strong Islamist organisations, in particular the Muslim Brotherhood, exert strong influences on the population at large and thus form a substantial threat to the ruling regime.	The country faces severe economic and social challenges. Job creation and social security are the main concerns of the electorate.	Egypt overall has a strong willingness, but limited ability to engage with the EU. Substantial US military aid reduces dependence on the EU.
Lebanon	Lebanon's government rests on a sectarian compact between the Sunni-Muslim, Christian and Druze communities. In this situation of distributed power, Syria tries to exert influence on internal decision making, even indirectly supporting Hezbollah.	The economic and administrative reforms begun under PM Hariri have come under strain, as internally the delicate balance between the now trans-sectarian movement in power and the Shi'a Hezbollah has been unhinged.	Most popular demands and provision of support happen within the communities. Trust in the state is low and the Lebanese people have a rich culture of self-organization.	The Lebanese government's policy towards the EMP is diffident, yet dominated by sectarian struggles, residual Syrian influence and the instability following the Israel / Hezbollah conflict in 2006.
Algeria	The military still is a main force behind President Bouteflika's government, with roots in the Oujda Group. In terms of party politics, FLN, MSP-Hamas as well as the RND form the backbone of the president's power. These groups favour developing the hydrocarbon sector	Unions are import contributors to policy formation. They, and parties like Parti des Travailleurs (PT) promote employment protectionism policies opposed to liberalisation measures. The outreach of armed Islamist terrorism has been reduced.	Like other MENA countries, Algeria too has 'zones of poverty', high unemployment rates especially among young male adults, combined with widespread fundamentalist ideas. Main cleavages are those between secular and religious forces, Arabophones and Berberophones, wealthy and poor.	Algeria has at most interest in the EMP as bilateral resource deals and accompanying FDIs are involved. The necessity for a broader, even multilateral international approach seems not given. Compared to other MPCs, Algeria ranks below average.
Syria	The Alawi minority forms Syria's political elite, especially through the influential Assad and Makhlof families. Under the institutional umbrella of the Ba'ath-Party, the Alawis have created a long-lasting alliance with the Sunni-business-class-majority. However, there are frictions between the president and the Makhlof-led Sunnis, favouring status quo policies.	Ba'ath-Party / National Progressive Front respectively is often described as 'regime of minorities'. As one third of GDP consists of agriculture, the peasant union has strong lobbying influence. However, its influence can be easily countered by resource-revenues (crude-oil), which gives Syria rentier-state economy properties.	The vast majority of Syrians has not been exposed to democracy in the western sense. The Society is largely depoliticised. However, redistribution in agrarian property, public employment measures and social transfers are popular policy items.	The executive sees the EU-Association Agreement as a kind of instrument against US-interests as well as for internal reformism in order to strengthen its own domestic hold. Yet, the Association Agreement is not in force as nationalist policies create obstacles not easily being bargained away.

Sources: Bertelsmann Transformation Index 2006; Senyücel et al. (2006)⁵

⁵ Senyücel, Sabiha et al. (2006) 'Factors and Perceptions Influencing the Implementation of the European Neighbourhood Policy in Selected Southern Mediterranean Partner Countries' EuroMeSCo paper 49.

Economic freedom indicators (see Table 2) show that economic liberalisation has proceeded fitfully in the South Mediterranean. Most MPC governments have been reluctant to relinquish control over the economy and allow liberalisation that may change the balance of power in their countries.⁶ While aggregate indicator scores may have changed given different reform speeds in the MPCs, many have not managed to improve their rankings. Thus, there is a match between the case studies in Table 1 and more result-oriented policy indicators. It is necessary, however, to consider the constellation of domestic factors leading to more or less commitment to the Barcelona Process. As the cases in Table 1 show, the degree of influence and the kind of interests which exerts influence on incumbent governments is of major importance.

Table 2: MPC economic freedom 1996 – 2008

Country	Rank Average, 1995-2008	MPC Rank, 1996	MPC Rank, 2008	Global Rank, 1996	Global Rank, 2008	% Score Change, 1996 – 2008
Israel	1	4	1	54	46	8.04
Jordan	2	5	2	61	58	3.71
Tunisia	3	2	5	44	84	-7.14
Lebanon	4	3	3	49	73	-3.76
Morocco	5	1	7	43	98	-12.23
Turkey	6	6	4	80	74	7.14
Algeria	7	7	8	87	102	2.09
Egypt	8	8	6	95	85	13.70
Syria	9	9	9	124	144	9.96
Libya	10	10	10	136	154	21.88

Sources: Heritage Foundation (2008), Bodenstein and Furness (2008). The Heritage index comprises business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, labour freedom.⁷

In general, it can be assumed that the higher the net rent incentives for business actors, the more probable commitment towards the EU will be. However, strong ideological or sectarian movements not interested in commercial gains create problems for reform minded governments and constrain their ability to approach the EU. For instance, Egypt's economic and business commitment towards the EMP is supported by strong commercial interests in trade openness, but implementation is held back by political interests in maintaining the status quo. Morocco's sluggish economic reform is due to strong protectionist groups with interests that counter the

⁶ Ottaway, Marina and Michelle Dunne (2007) 'Incumbent Regimes and the 'King's Dilemma' in the Arab World: Promise and Threat of Managed Reform.' Carnegie Papers, Middle East Program, no. 88.

⁷ Bodenstein, Thilo and Mark Furness (Forthcoming, 2008) 'Separating the Willing from the Unable: The European Union's Mediterranean Policy as a Screening Game.'

government's political commitment to Europe. Therefore, even where economic incentives for trade liberalisation are high, the government's policy positions might be different.

In Syria the motivation to oppose a policy approaching the EU is high because individual rents by de facto-oligopoly or even monopoly actors close to the key decision-makers are huge. Policy formation is impacted by resource scarcity in these countries. The overall ability of such interests to be influential, however, depends on their ability to form veto-player coalitions, as seen in Syria. Finally, the formation of strong veto-player coalitions is linked to the question of possible mobilisation of support by the population, as present in Lebanon or Morocco (Gebara 2007). Therefore, even when ideological interests are not strong, an actor's bargaining power is subject to constraints imposed by domestic veto players.

Each government has chosen an ex ante-commitment level under its constraints, yielding more or less (economically) Pareto-improving outcomes, but a stable bargaining result within the intergovernmental framework is not self-evident. This is due to the fact that the EU speaks with a 'single voice' on the decision level. Depending on the decision-making rule the EU uses, the size of its win set varies. For unanimous decisions within the EU, the common win-set is considerably small, if not a single point on the policy space. This lowers the probability of an overall stable bargaining result with a representative MPC. On the other side, such probability rises if the EU uses qualified majority voting. Note that (depending on the field of policy), Europe does not necessarily offer a single bargaining arena. The recent proposal of French President Sarkozy to form a 'Mediterranean Union' has demonstrated that highly committed European countries have the incentive to shape, improve and complement policies of the European Union.

Such an aspect of issue related stability has its counterpart on the MPC side. If an MPC can simply choose to take or to leave an issue-specific negotiation, it will join the EU-win set under the condition of overlapping policy issues as the EU provides extra support that other MPCs would otherwise get. As described above, the size of the MPC's winset depends on the domestic degree of polarisation between pro-commercial and ideological societal groups on the one hand, and the counter ability of vested interests and popular supported veto-players on the other. Thus, countries with large winsets and high commitment towards the EU have a higher probability of ending up in states of stable bargaining, which could be assessed as Pareto-optimal.

When the EU offers a single package, however, it either over- or underpays the individual MPC, not necessarily yielding the level of commitment the incumbent should employ from an efficiency point of view. Though the implied political measures are within the range of political feasibility, there are two possibilities for suboptimal results. There might be states with strong commercial interest groups, strong ideological players, but weak veto-players. Here, underpayment by the EU means a lack of incentive to appease or overcome the ideological groups and therefore the failure to implement otherwise politically feasible and efficiency-improving results, such as in Tunisia. On the other side, countries that have more constrained domestic conditions caused by vested interests and veto-players – like in Egypt – are overpaid since no improvement comparable with other countries could be made. Thus, the lower the degree of domestic opposition veto-players, the more probable efficiency improving policies, conditional on a high degree of commitment towards the EU by a strong pro-commercial faction. Only a small number of countries that joined the bargaining deal with the EU can commit themselves in an efficient way. Most of the MPCs remain in a situation where the bargain with the EU has created Pareto-inferior results or where it would become politically infeasible if the policies formally agreed on are implemented. As the framework offers possibilities to deviate by technical means during implementation, incumbents use that opportunity and lower the amount of delivered reforms in accordance with the agreement, which means they miss the opportunity to improve efficiency.

This analysis of domestically formed and internationally shaped policy outcomes has shown that while the Barcelona Process is tackling a lot of issues as stable bargains, most of the time potential in terms of efficiency gains has not been maximised. This is due to the very nature of the Barcelona Process as a negotiated but domestically constrained framework. This analysis gives an impression of the overall framework, its analytical properties and its ability to develop potentials. However, the preconditions for and influence of the different Euro-Mediterranean issues on bargaining outcomes needs to be further underlined and empirically investigated.

3. The Barcelona Process: Macroeconomic Responses⁸

The Barcelona Process as a negotiated framework has the potential for accomplishing political and economic stabilisation in the Mediterranean Basin. Designed for promoting a region of shared prosperity, the EMP aims to achieve socio-economic goals through coordination and cooperation. In this respect the EMP entails a set of complementary policy fields, representing a natural anchor for incumbent MPC governments to implement structural, political and economic reforms (Zbytniewski 2007). Achieving economic prosperity and social as well as political stability is the result of a sustainable economic growth process in middle income countries. Assisting and supporting Mediterranean governments in accomplishing this ambitious aim has thus been a priority for the European Union within the Barcelona Process framework.

GDP per capita in the EU-27 is more than ten times higher than in the Arab MPCs. Although increasing wealth to something approaching EU levels is expected to take several decades, ‘there is no reason to believe that people in the MPCs are willing to wait patiently for economic wealth to materialise over time’.⁹ This creates a dilemma for governments which cannot afford to ignore public demand for wealth without putting their political support at risk. Despite the fact that high consumption levels lower the socially desirable investment necessary to prepare the ground for future economic prosperity, governments cannot resist the societal demand to allow for higher consumption.

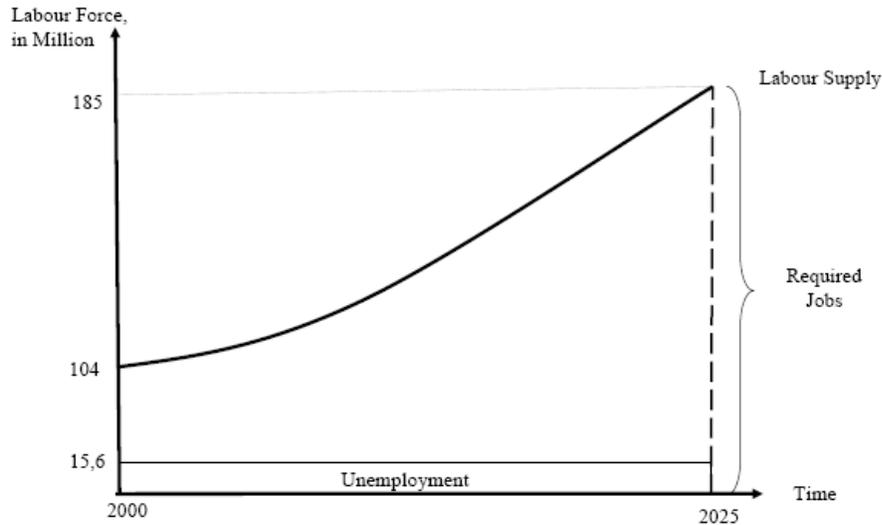
Besides satisfying high rising expectations concerning increasing individual wealth in the region, incumbent governments require economic growth to fight high unemployment rates. Given an asymmetric demographic upswing in the South Mediterranean, MPC governments have to cope with upward shifting labour supply (see Figure 5). 64.4 million new jobs will have to be created in the Middle East and North Africa by 2025 just to employ expected additional job seekers. Based on current growth projections for the MPCs an additional annual growth rate ranging from 1.8% in Algeria to 4.1% in Egypt is required just to keep unemployment constant at already high levels (see Figure 6). Thus, increased unemployment can be expected for several years to come, constraining poverty reduction, fuelling existing migration pressure towards the EU and feeding instability in a region already characterised by social tensions (de Acre et al 2007). These findings

⁸ Research findings presented in this section are based on the Macroeconomic Policy Standing Group’s (MPSG) work on macroeconomic governance in the Euro-Mediterranean Partnership, which has been carried out in cooperation with Professor Mohamed Omran, Arab Academy of Alexandria.

⁹ JMC Berlin (2007) ‘GO-EuroMed Specific Targeted Research Project Stage 1 Summary of Findings,’ p. 8.

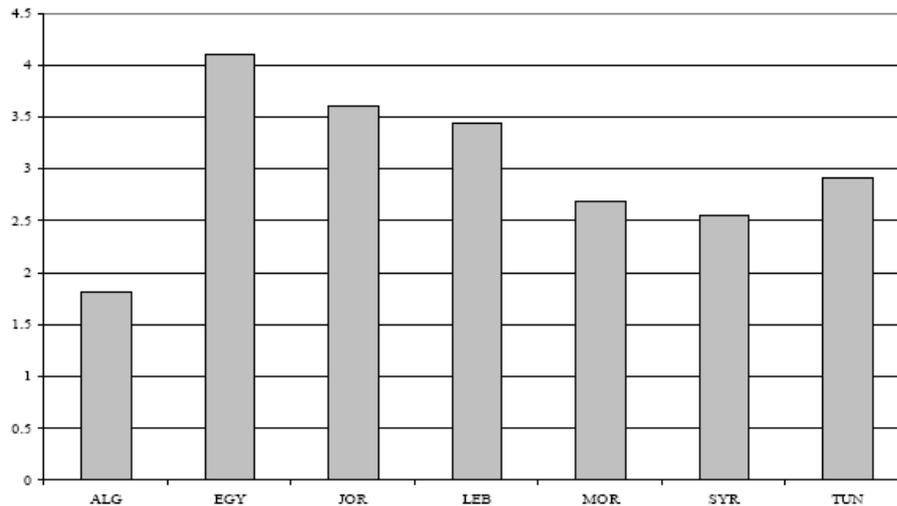
indicate that the catch-up process and the absorption of additional labour supply necessitates raising economic growth and corresponding rising investment levels.

Figure 5: Labour force growth until 2025



Source: own calculations based on WDI Database 2007, ILO 2008

Figure 6: Required additional economic growth rate to maintain current unemployment levels in selected MPCs

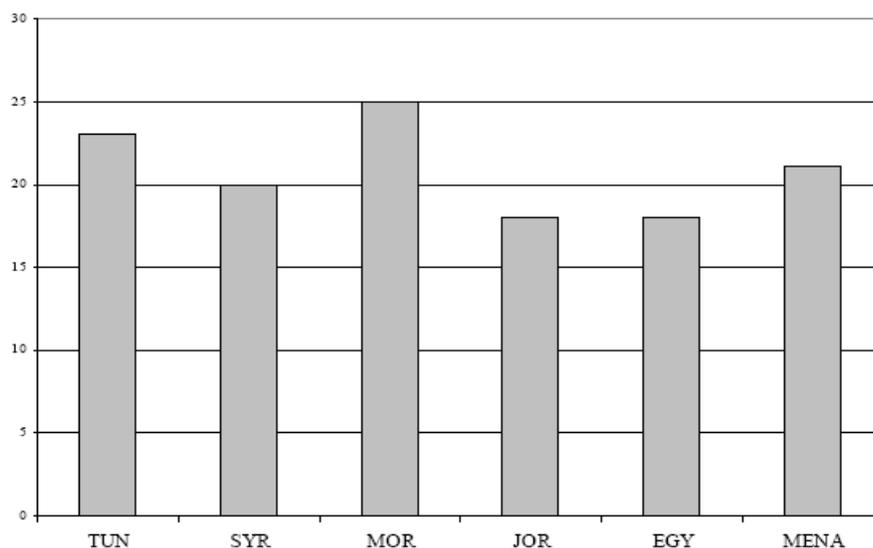


Source: own calculations based on WDI Database 2007, ILO 2008

Given low national savings in labour abundant but resource poor economies, importing capital goods via current account deficits is required. Although this strategy represents a viable policy option it entails economic and political risks. A large share of MPC capital imports originates from migrant remittances and cross-border portfolio investment from resource exploiting

MPCs, the European Union and the members of the Gulf Cooperation Council (Gebara 2007). Although these cross border flows are anticipated to be less volatile, they are not sufficient for fostering growth at the required level. MPCs will have to import additional international capital resources, which in turn leads to increased macroeconomic vulnerability. However, if these economies cannot grow up to market expectations, it is likely that investor sentiments will turn sour leading to sudden capital account reversal and balance of payments crises. This phenomenon was observed in emerging markets during the Latin American and Asian Financial crises during the 1990s. In this respect the ability of governments to attract foreign investment in form of FDI and portfolio investment while restraining immediate consumption will determine the success of this strategy.

Figure 7: Gross capital formation in selected MPCs in 2005 as % of GDP

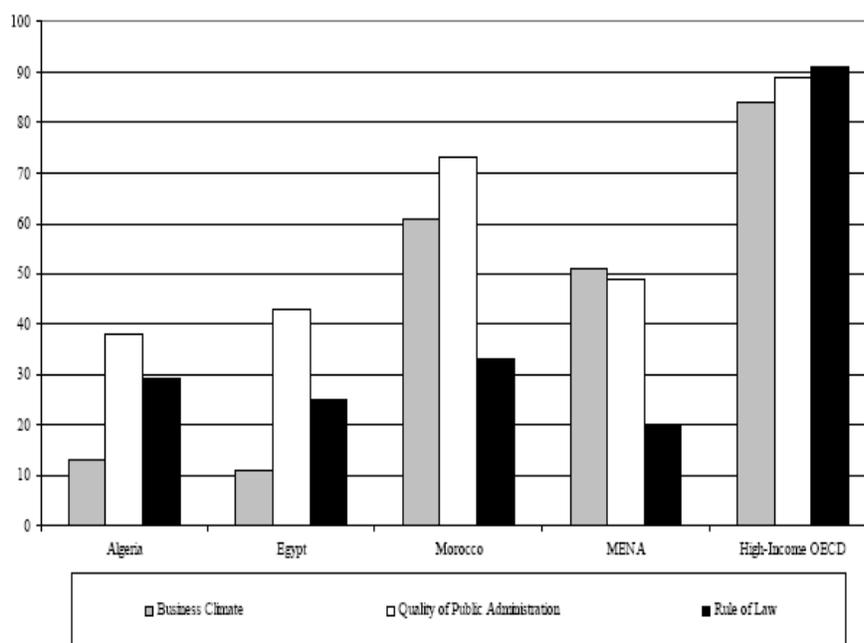


Source: World Bank World Development Indicators, 2007

To initiate a self sustained growth process, MPCs must engage in market based liberalisation. This socio-economic transition process however represents a key political as well as social challenge (Driouchi and Zouag 2007, Żukrowska et al 2007). As discussed above, public resistance and well organised interest groups and power clubs can prevent governments from committing effectively to reform policies. This is partially reflected in low national investment levels (see Figure 7). Ranging from 18% of GDP in Egypt and Jordan to 25% of GDP in Morocco, MPC investment levels are on average lower than in the best performing Asian economies, in which more than 30% of GDP was invested during the 1990s. For that reason elevating traditional growth constraints such as bureaucratic inefficiencies (see Figure 8: Quality of Public Administration), corruption (Figure 8: Rule of Law) and financial repression, governments will

have to initiate a multitude of complementary market- based liberalisations (Figure 8: Business Climate).

Figure 8: Governance indicators in selected MPCs, the MENA and the OECD



Source: World Bank World Development Indicators, 2007

The EMP has the potential to curb internal resistance towards the adoption of particular market-based rules by shaping individual preferences and reducing adverse distributive effects (Lavialle 2007). Both the socio-cultural and economic and financial baskets have been designed to contribute to this process. From this perspective, opportunities for the EU emerge – under the umbrella of the Barcelona Process – to actively support the implementation of a reform agenda. Serving as an external commitment device, the EU can provide guidance. Besides financial support, direct technical assistance and enhanced day-to-day cooperation represent key channels through which the EU can anchor the implementation of market-led reforms. In the process of deeper regional integration, increasing macroeconomic interdependence between the EU and MPCs calls for deeper cooperation and coordination to reduce economic vulnerabilities.¹⁰ This also includes upgrading financial sector governance via multilateral and bilateral technical assistance programmes.

¹⁰ Omran, Mohammed and Nevine Eid (forthcoming, 2008) 'The EMP as a Macroeconomic Policy Anchor.' GO-EuroMed MPSG Working Paper no. 1.

In this context it is worth mentioning that the European Central Bank has successfully assisted capital market authorities in Egypt in designing and implementing banking regulation reforms in 2007.¹¹ Nevertheless, existing programmes are so far mostly ad-hoc in nature and are not institutionally embedded within the Barcelona Process framework. Applying these policy measures within the Barcelona Process clearly represent a window of opportunity to set incentives for governments to enhance overall economic efficiency, restrain popular expenditure policies and improve the coordination between key economic actors.

From a European perspective, supporting the economic transition process via the EMP framework opens up a multitude of socio-economic opportunities. Given demographic developments in the European Union leading to a rising shortage of labour supply, intensified trade relations and the migration of high skilled labour from MPCs carries large potentials for European societies as well as for Mediterranean partners (Boboc et al 2007). Investment in human and physical capital as well as closer cooperation within the existing EMP framework is expected to add further momentum to expand on these emerging potentials (Baudassé and Driouchi 2007). Therefore intensifying cooperation and coordination along these lines is mutually beneficial and thus represents a Pareto- improvement to the current status quo for both parties. However no concrete policy measures for dealing with the intermediate costs of integration and reform have been formulated in the initial outline of the Barcelona Process. Instead, the policy dialogue has thus far primarily concentrated on achieving objectives outlined in the three baskets of the EMP.

¹¹ European Central Bank Press release, 25 Nov 2007.

4. The Barcelona Process: Looking Into the Structure

4.1 Economic and Financial Basket

The economic and financial basket is aimed at improving living conditions by accelerating socio-economic development and reducing the development gap in the Euro-Mediterranean region. Particular focus has been given to establishing a EuroMed Free Trade Area by 2010. This date has a rather symbolic character: taking into account the agreed transition periods, it is more realistic to speak of a genuine FTA earliest by 2020.¹² The EU committed € 189.45 million in supporting multilateral aspects of the economic and financial partnership between 2000 and 2006. These funds were only a small part of the almost € 9 billion invested in the EMP between 1995 and 2006 by the Commission under the MEDA programme, most of which was spent bilaterally on implementing the EMP Association Agreements focussing heavily on economic and financial reform.¹³ These short and medium term assistance measures are a prerequisite to deliver long term benefits for both sides and are only part of a comprehensive development strategy to mitigate adverse social, economic and environmental impacts.

According to the European Commission, major achievements in the economic and financial partnership have been accomplished in the overall trade exchange between the MPCs and the EU, where MPCs exported 2007 goods and services worth over € 60 billion, more than twice as high as before the EMP started.¹⁴ However, tariffs and non tariff barriers remain at a high level on both sides. Nevertheless, the successful experience of customs reform in Morocco provides important lessons for other MPCs seeking to dismantle both formal and informal non-tariff barriers to trade (El-Rayyes 2007). On the other hand, the EU maintains contingent restrictions and other trade restricting measures to the major agricultural exports of the MPCs.

Special emphasis has been given to deepening regional integration, not only in tradable goods and services, but also in other areas like energy and factors of endowment. With regard to the latter, labour and capital are important factors in shaping economic integration and relations between Middle Eastern and North African (MENA) countries, especially in the form of

¹² Gándara, Pablo and Max Büge (2006) 'The European Union's Trade Policy towards the Southern Mediterranean: Coherence or Chaos?' GO-EuroMed Working Paper 0601.

¹³ See www.ec.europa.eu/external_relations_euromed_meda

¹⁴ European Commission (2007) 'The Euro-Mediterranean Roadmap for Agriculture and Rural Development'. DG Research.

remittances (11.8% of MPCs' GDP in 2007)¹⁵. Migration between MENA countries could help integration between those states easily not only on the economic level but also socially (Gebara 2007).

Overall south-south trade integration has improved. Intra-regional trade between Arab MPCs has increased by 462% over the past six years (El-Rayyes 2007). It is important to note that the reason these figures appear so impressive is that trade between these countries started from a very low base. MPCs still only trade around 8% of their total exchanges with other MPCs, which is small in comparison with the intra-East Asian figure of around 30%. The EU has supported this development by several means, like supporting the Agadir Agreement among Egypt, Jordan, Morocco and Tunisia, creating a PanEuroMed cumulation system on rules of origin and promoting the harmonisation of technical legislation and standards. Notwithstanding strong support from the EU, both structural and functional constraints make the prospects for trade based south-south regional integration low (El-Rayyes 2007). Constraints include the negligible absorption capacity of southern Mediterranean markets, similar factor endowments and a lack of a diversified export base for manufactured goods, resulting in a concurrent (rather than complementary) supply structure among these countries. It is therefore likely that the high rates of intra-regional trade growth will slow down considerably in coming years. MPCs are expected to concentrate much more on extra-regional markets, particularly the US and Europe, where a higher absorption capacity has greater potential for fostering the MPCs' economic development.

Agriculture is the key issue in Euro-Mediterranean trade relations. The EU remains the main market for Mediterranean partners' agricultural exports, accounting for about 46% of farm exports from the region. Annual EU imports of fruit and vegetables are valued at nearly € 1.5 billion. On the other hand, 37% of the Mediterranean area's agricultural imports came from the European Union. As it is highly politically sensitive, agricultural trade liberalisation has been very limited to date. Domestic subsidies and protectionist trade policies directly affect the levels of production and consumption of agricultural products. Against this backdrop, although around 80% of agricultural trade exports from MPCs enter the EU duty free or at reduced rates, the EU's contingent restrictions and SPS measures further hinder effective liberalisation.¹⁶ On the other hand, MPCs have no preferential treatment for more than 40% of EU agricultural exports. The domestic restrictions lead to a strong protection of agricultural trade in both sides, producing

¹⁵ World Bank, World Development Indicators, 2007.

¹⁶ European Commission (2007) 'The Euro-Mediterranean Roadmap for Agriculture and Rural Development.' DG Research.

distortions which resemble a Pareto sub-optimal Nash equilibrium result. An economically more efficient outcome might be reached by a strong agricultural reform pressure for both sides, produced by exogenous changes such as growing global demand for food products, and the liberalisation talks within the WTO agricultural negotiations.¹⁷ Euro-Mediterranean agricultural liberalisation talks, which started 2006, are nested with progress in the multilateral liberalisation of the Doha round, as its provisions have major implications for Euro-Mediterranean agricultural trade (Żukrowska et al 2007).

The second major issue for Euro-Mediterranean regional integration is the liberalisation of services and investment. On the European side, voters' fears of migrants and cheap labour have traditionally limited the scope for agreement. Against this backdrop, the right of establishment and the temporary movement of persons present big challenges for the European side.¹⁸ On the other hand, MPCs face the challenge of improving the investment climate and reducing inefficiencies arising from large public sector involvement in domestic markets. MPCs are embarking on a structural transition process for key sectors like banking, financial and telecommunication services. Recently launched negotiations on liberalisation of investment and services and a set of complementary measures are designed to pave the way, mitigating short term costs. However, MPCs need to improve their performance in implementing economic reforms if they are to maximise the benefits from these negotiations (Żukrowska et al 2007).

Due to complementary interests, energy plays a pivotal role for Euro-Mediterranean economic integration. This potential can be developed further, as a window of opportunity for deeper north-south and south-south integration in energy trade and infrastructure exists (Gándara 2007). The Mediterranean region presents unique conditions for economic ties due to the proximity of energy producers and energy consumers. Renewable resources and fossil fuels present positive conditions for long term cooperation. The EU's member states import (as a group) 13% of their oil and 20% of their gas consumption from the MPCs. Against this background, European companies have long maintained strong presence in energy exporting MPCs in both upstreaming and downstreaming activities. However, on the other side, lobbies have restricted the access of Mediterranean partners to production and distribution activities in the European market. Due to a shift in the political and economic conditions caused by supply conflicts in Eastern Europe and by

¹⁷ By 2016, and compared to the average for 2001-05, trade is expected to rise by up to 70% on certain products, like vegetable oils. For further information, see: OECD-FAO (2007) *Agricultural Outlook 2007-2016*. Paris.

¹⁸ Rabaud, Isabelle and Thierry Montalieu (2006) 'Trade in Services: How Does it Work for MENA Countries?' GO-EuroMed Working Paper 0602.

rising energy prices, the European Commission may be able to exploit agency slippage and foster regional energy integration. A new Euro-Mediterranean energy partnership was launched in December 2007, and a multilateral institutional body has been established. There remains much to do, particularly regarding convergence within the European Union itself.

4.2 Political and Security Basket

The EMP's political and security basket is intended to provide partner governments with a stable forum for general confidence-building, enabling them to take advantage of opportunities for cooperation where security preferences converge. However, just as the EU's common foreign and defence policies (CFSP/EDSP) have evolved more slowly than other areas of European integration, the Barcelona Process' political and security basket remains the least developed area for Euro-Mediterranean cooperation. Regional security issues are dealt with on an ad-hoc basis, and no substantive bargain that could lead to a set of rules governing security interaction among the region's relevant security actors has been reached (Furness 2007). Nevertheless, negotiations are maintained under the EMP framework through meetings that take place at various levels, including foreign minister level, where security issues are discussed in detail. The EMP framework is not designed to resolve the conflicts between its member governments on its own. Rather, it is meant to help with the management of these differences in ways that reduce costly externalities by facilitating the convergence of national security policies.

The equilibration of 'hard' security preferences (i.e. on national and regional security threats to the state) has not been easy for EU member governments. The EU has been able to adopt a common position towards the Mediterranean, but agreement is confined to broad principles (such as commitment to multilateralism) or to specific issues with clear boundaries (such as cooperation under the UN banner in southern Lebanon), rather than formal, multi-issue regime building. Groups of EU member governments work together on wider security issues with relevance to the EMP, such as the French, British and German cooperation with the EU's High Representative for CFSP in the 'E3-EU' negotiations with Iran on its nuclear programme. Some European governments have shown commitment to cooperate to end the political deadlock in Lebanon, demonstrated recently through the visit of the foreign ministers of France, Italy and Spain to Lebanon in October 2007. These initiatives indicate that the EU's role as a security actor in the Mediterranean is growing, and that former Israeli Prime Minister Ariel Sharon's disparaging remark that the EU is 'payer, not player' was an underestimation of European capabilities

(Mouawad 2007). However, common European action in times of crisis has been undermined by differences in national opinion, as illustrated by the varied French, German and British positions on the 2006 July War between Israel and Hezbollah. External security cooperation remains a delicate area for EU member governments.

There are also significant barriers preventing Mediterranean partners from settling on a common position vis-à-vis the EU. MPC governments are inclined to develop their own unique and mostly divergent interpretations of geopolitical developments and national security interests and objectives, influenced by constant concern about their survival as a sovereign entity (Yilmaz 2007). The key actors in this process are the elites that shape national preferences. The core elite, comprising the king or president, senior members of the military and security services, and other figures that make up the inner circle, make the key strategic decisions.¹⁹ They are prepared to work together bilaterally and multilaterally when necessary, informally or even secretly if need be. However this does not extend to committing formally to regional security initiatives that may develop in ways that curb their unilateral options (Furness 2007).

The Barcelona Process does not impose this kind of constraint upon its member governments. Rather, it provides a framework in which partners can deal with specific security issues that arise as exogenous geopolitical conditions change. Consequently, MPCs have remained part of the framework, cooperating with the EU when they see benefits and refusing to cooperate when they do not. For Mediterranean partner governments, US policy in the Middle East and North Africa, externalities from the Iraq war (including the Kurdish drive for independence and the millions of Iraqi refugees in Syria and Jordan), the rise of Iran as a regional power, the policies of GCC states, and historical enmities all have priority over the Barcelona Process (Yilmaz 2007).

To date, real progress on ‘hard’ security cooperation has been blocked by the impact of several issues exogenous to the Barcelona Process. The Arab-Israeli conflict is the most obvious barrier to regional security cooperation. Most Arab States continuously argue that cooperation is impossible as long as there is a ‘strategic imbalance’ between Israel and its neighbours (Mouawad 2007, p. 14). The Arab-Israeli conflict fosters mistrust of the West, especially among Arab public opinion, while rhetorical support for Palestinians helps maintain Arab leaders’ authority. The inability of either the EU or its member states to influence the conflict makes Europe appear weak in the eyes of many in the region.

¹⁹ Perthes, Volker (ed.) (2004) *Arab Elites: Negotiating the Politics of Change*. Boulder, CO.: Lynne Rienner.

Accordingly, negotiations on rules governing Euro-Mediterranean security cooperation have reached a Nash equilibrium-type situation, where no government can see advantages in changing its position while the positions of the other governments remain unchanged. The impasse became clear in 2000 when the Euro-Mediterranean Charter for Peace and Stability was shelved amid the violence of the second Intifada. No progress on the Charter appears likely without exogenous shocks – for example, serious progress towards the resolution of the Arab-Israeli conflict, which would alter the mutual policy stance of Arab elites and the Israeli government and create new windows of opportunity for mutually beneficial agreements. A second exogenous change that would, in theory, influence preferences in ways that could break the deadlock and restart negotiations is a change in policy from the United States leading to closer coordination with the EU on Mediterranean security. The US and EU have clear common interests in the area stemming from their desire to reduce the negative externalities of instability throughout the MENA. However, in recent years there have been significant transatlantic disagreements over the best strategy for pursuing these interests (Crespo et al 2007).

Regarding ‘soft’ security issues (threats to the security of the individual rather than the state) exogenous changes have opened windows of opportunity for negotiating an agreement based on common interests. Terrorism is perhaps the best example where European and MPC governments’ preferences have converged. In Europe, 9/11 and the Madrid and London public transport bombings raised fears among voters of the random threat that terrorists pose, and, while large-scale terrorist attacks in European countries are still relatively rare, voters have demanded action from their governments. In the MENA, Islamist radicals have long posed a direct threat to the incumbents’ hold on power. The Maghreb MPCs in particular have objected strongly in cases where people they have accused of terrorist activities have received political asylum in Europe²⁰. They have also expressed concern at the numbers of Islamists radicalised in Europe returning home to launch attacks in their home countries. In recent years EU and MPC governments have redoubled cooperation on catching terrorists, breaking up networks, and repatriating suspects to the custody of the security services in their countries of origin, raising the issue of consistency with the EMP’s declared human rights objectives.

There appears to have been tacit recognition that negotiations on hard security cooperation have reached a stage where progress has stalled. Whereas the 1995 Barcelona Declaration established a Political and Security Partnership with the ambitious goal of ‘establishing a common

²⁰ Joffé, George (2008) ‘The European Union, Democracy and Counter-Terrorism in the Maghreb’. *Journal of Common Market Studies* 46:1, pp. 147 – 171.

area of peace and stability’, the 2007 – 2013 ENPI Regional Strategy Paper lists ‘a common Euro-Mediterranean area of justice, security and migration cooperation’ as a main priority. This is still an ambitious goal, but one that concentrates more clearly on issues that are priorities for governments on both sides of the Mediterranean. At present the Barcelona Process framework is providing governments with a platform for declarations on terrorism, as well as a forum in which officials can meet to work through JHA and migration issues. The development of this institutional framework for will be one of the central issues for research in stage 3 of the GO-EuroMed project as negotiations proceed.

3.4 Social, Cultural and Human Basket

The Social, Cultural and Human basket has been deliberately designed by the EMP’s member governments to contribute to their political and economic objectives, and the European Commission has been given the task of implementing its priorities. The socio-cultural basket has the declared objective of preventing a ‘clash of civilisations’ in the Euro-Mediterranean region. Between 2000 and 2006 €76.9 million was allocated to bringing stakeholders together from both sides of the Mediterranean by fostering civil society contacts and broader capacity-building.²¹ The European Commission has recently stated that women’s empowerment and access to education are the two most pressing issues where Europe can assist in this area.²² The socio-cultural basket encourages media and communication and facilitates cultural events and exchanges. The Commission also intends to target the next generation of leaders with the promotion of youth dialogue and exchange. In May and June 2007 Berlin hosted the first rounds of Euro-Med Youth Parliament, a civil-society initiative aimed at fostering understanding of democratic governance and legislative proceedings among young people from the Euro-Mediterranean area.

The socio-cultural basket has three features that perform an important role in the functioning of the overall EMP framework: to build trust, to support economic reform, and to play a role in the long-term process of preference shaping in European and Mediterranean partner countries. By performing these three functions, the EMP’s socio-cultural basket supports negotiations and outcomes in the political-security and economic baskets.

²¹ See www.ec.europa.eu/external_relations_euromed_meda

²² European Commission (2007) ‘European Neighbourhood and Partnership Instrument (ENPI) Regional Strategy Paper (2007 – 2013) and Regional Indicative Programme (2007 – 2010) for the Euro-Mediterranean Partnership.’

Broader social interaction is supposed to reinforce the EMP's stability by increasing the number and scope of contacts between European and Mediterranean countries at various levels, thereby helping to build trust. This kind of socialisation is important for trade and investment as well as for political and security cooperation, as it builds confidence during negotiations by providing better information and reducing uncertainty.

In the Arab Mediterranean countries building trust is not easy, despite the region's unusual cultural homogeneity represented in its linguistic, religious, socio-cultural, and historical traditions. In Arab countries trust is often produced and shared on the basis of personal relationships. The rules are generally tacit, abstract and unwritten (Lavialle 2007). Culture does not divide MPC societies – the problem is rather the political conflicts that feed on misunderstanding between societies (Mouawad 2007). The region remains differentiated in terms of political governance, mainly in terms of differing ideologies and the establishment of autocratic, authoritarian, and totalitarian regimes. Obstacles to building confidence are more political than cultural, as conflicts are aggravated by a lack of trust among Arab leaders rather than the general population in the 'Arab street'.

The EU has been working to strengthen civil society cooperation with the more 'liberal' MPC civil society groups. However, most of these civil society organisations have been unable to make a major impact either on policymaking or on the wider society (Saif 2007). This has resulted in a limited role for civil society organizations during a period that should have witnessed their active participation in shaping market practices and mores as well as with regard to strengthening greater social openness in MPCs. As Mouawad writes, 'Effects of the Barcelona Process and the European Neighbourhood Policy on civil society have been limited at best' (2007, p. 19).

From an economic perspective, activities conducted within the socio-cultural basket's aegis help to develop human capital accumulation and to buttress the catch-up process. Education, health, knowledge and culture are not developed only for their intrinsic benefits, but because they are central areas for the enhancement of domestic development, bilateral and multilateral cooperation and partnerships (Baudassé and Driouchi 2007). In the education sector, MPC governments have a strong interest in encouraging their citizens to study at European schools and

universities for the future economic benefits that this brings to their countries, either through remittances or when highly skilled people return home.²³

The Cairo Declaration of June 2007 entitled 'Towards a Euro-Mediterranean Higher Education and Research Area' stated that it was necessary to increase MPC standards in education and research by modernising research and development policies (Oktay 2007). This aspect of the social and cultural partnership appears to be highly promising for institution-building, both from the demand side and from a political feasibility perspective (Baudassé and Driouchi 2007). This underlines the importance of research cooperation for two reasons: first, it creates ties and common understanding between the EU and MPCs; and secondly because this has an impact on the development of human capital.

Governmental organisations from different countries in Europe continue to work mostly bilaterally with individual MPCs on programmes that include, besides the traditional areas, education, research and the promotion of cultural interaction. The development agencies of France, Spain, Germany and other countries continue to support development actions in North African and Middle Eastern countries. This has created clear windows of opportunity for developing this cooperation further, particularly in terms of multilateral initiatives which will require institutional coordination, for example in cooperation with competent civil society actors such as the Anna Lindh Foundation (Baudassé and Driouchi 2007). Investigating institutional means for developing this cooperation further will be a key task for the GO-EuroMed consortium in 2008.

The third feature of the socio-cultural basket is its 'preference shaping' role on both sides of the Mediterranean. There are many aspects of Euro-Mediterranean interdependence that are not well understood by European and MPC citizens, and fear of 'the other' can affect government policymaking. Changing these entrenched societal mores will take many generations.

Dealing with the reluctance of European voters is an important function of the socio-cultural basket as governments deal with the process of integrating migrants to Europe. Popular opposition to migrants on social and cultural grounds can influence government preferences in this area despite the economic demand for migrant labour as Europe's population ages. There are some 5 million MPC migrants resident in the EU, and there is demand for more foreign labour and liberal immigration policies in order to prevent the overall EU population declining by 10%, to 447

²³ Baudassé, Thierry and Ahmed Driouchi (2006) *Labor and Migration in the Euro-Mediterranean Partnership: Issues and Perspectives*. Orléans: LEO.

million inhabitants in 2052. Replacement migration is needed but the levels of migration needed to prevent population ageing (i.e. to maintain the potential support ratio, defined as the population aged 15-64 in proportion of the population aged 65 and over) are extremely large (Boboc et al 2007). The difficulty of managing the transition period mean that few European governments would be re-elected on a platform of encouraging the level of migration necessary to ease the fiscal challenge posed by an aging population.

In the MPCs, opposition to Western political and economic models among the general population has helped to reinforce the social contract between semi-rentier governments and the general population. This is a sensitive area for MPC societies and for the EU, as it raises the spectre of Western cultural imperialism and memories of the pre-independence struggles against colonial rule.

In sum, the socio-cultural basket has been designed with specific objectives in mind that contribute to the EMP negotiating framework. By increasing the number and level of contacts through which issues are discussed, the socio-cultural basket brings more stakeholders into the process. The socio-cultural basket is also intended to reduce uncertainty by improving the wider visibility of the EMP. These features are meant to contribute to the EMP's stability and the ability of its member governments to cope with exogenous shocks when they occur. Institutional mechanisms for implementing these strategies are a key focus for the GO-EuroMed project's research at stage III.

5. Outlook on Stage III: Outlining the Aims

In the third stage of the GO-EuroMed research project the consortium will address institutional design and management strategies that can take advantage of windows of opportunity for cooperation building within the EMP/ENP-context during the next 10 years or so. During the first two stages the consortium has identified loopholes and shortcomings in the EMP framework, and issue areas in which negotiations have proceeded as far as they are likely to without exogenous change. We have also identified the considerable advantages the negotiating framework provides for governments on both sides of the Mediterranean Sea. Our task in 2008 is to show how windows of opportunity for further negotiations can be exploited through institutional design and management strategies at three interlinked levels: domestic, bilateral and multilateral institutions.

In view of the multilateral negotiation framework, the consortium will further develop and test hypotheses explaining institutional choices. This will lead to the identification of ways in which state preferences may be equilibrated through closer dialogue and negotiations. In this respect, we address proposals to reinvigorate the institutional setting for negotiations such as French President Sarkozy's agenda for a Mediterranean Union and the 'five plus five' framework.

Regarding bilateral institutions we will address the institutional aspects of bilateral cooperation between the EU and individual Mediterranean partners, and intergovernmental cooperation on both sides of the Mediterranean. The key theoretical issue that will inform this research is how the EU can avoid either overpaying or underpaying individual MPCs, because the current setting does not enable clear assessment of the costs partner governments face in implementing reforms. This question will be addressed by focussing on issues where windows of opportunity for intergovernmental and bilateral cooperation exist.

At the domestic level, the consortium will investigate to what extent and under which conditions it may be feasible to reinvigorate the MPC policy reform process. Research will concentrate on the negotiation process among domestic actors regarding the implementation of political and economic reform.

GO-EuroMed Working Papers 2007

- 0701 Sibel Oktay 2007: 'Post-Enlargement Trauma of the Euro-Med Partnership: An Analysis of Member State Preferences'. Sabanci University, Istanbul, Turkey.
- 0702 Bahri Yilmaz & Ezgi Özgül Öztürk 2007: 'International Competitiveness and Foreign Trade Specialisation in the Enlarged European Union and MPCs'. Sabanci University, Istanbul, Turkey.
- 0703 Aleksandra Galek, Katarzyna Żukrowska 2007: 'Competitiveness of the EU Neighbours after the 2004/2007 EU enlargement.' Warsaw School of Economics, Poland.
- 0704 Jamil Mouawad 2007: 'The Political Impact of the EU Fifth Enlargement on the Mediterranean Region'. Lebanese Center for Policy Studies, Beirut, Lebanon.
- 0705 Katarzyna Żukrowska Malgorzata Graçik, Joanna Stryjek and Magda Hussain 2007: 'Economic Domestic Reforms in Mediterranean Partner Countries'. Warsaw School of Economics, Poland.
- 0706 Marcin Zbytniewski 2007: 'Pro-democratic domestic reforms in the Mediterranean Partnership Countries'. Warsaw School of Economics, Poland.
- 0707 Ahmed Driouchi & Nada Zouag 2007: 'Overview & Discussion of Impacts of Domestic Reforms in Mediterranean Partner Countries of the European Union'. Al Akhawayn University, Ifrane, Morocco.
- 0708 Christophe Laviolle 2007: 'Arab Mediterranean Countries facing the "second generation" of Reforms: A Political Economy Standpoint'. Laboratoire d'Économie d'Orléans, University of Orléans, France.
- 0709 Ibrahim Saif 2007: 'The Process of Economic Reform in Jordan 1990-2005'. Center for Strategic Studies. University of Jordan, Amman.
- 0710 Khalil Gebara 2007: 'The Particularity of MENA Integration: The Case of Lebanon'. Lebanese Center for Policy Studies, Beirut, Lebanon.
- 0711 Thoraya El-Rayyes 2007: 'Trade and Regional Integration Between Mediterranean Partner Countries'. Center for Strategic Studies, University of Jordan, Amman.
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